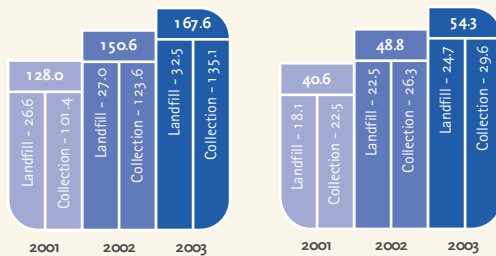




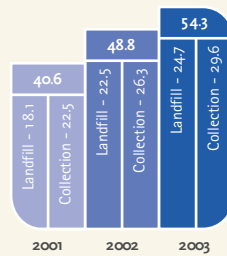
Our Roadmap for Success - Continuous Improvement

BFI Canada Income Fund Annual Report 2003

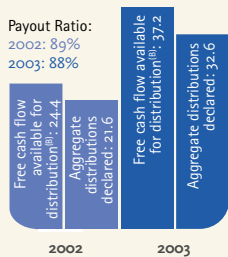
2003 financial and operational highlights



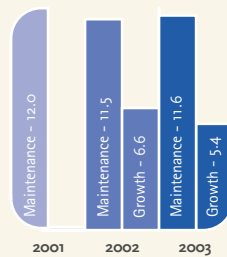
REVENUES⁽²⁾
(in millions of dollars)



EBITDA^{(A) (2)}
(in millions of dollars)



DISTRIBUTIONS⁽³⁾
(in millions of dollars)



CAPITAL EXPENDITURES⁽⁴⁾
(in millions of dollars)

BFI Canada Income Fund's ("BFI Canada" or the "Fund") continued growth in fiscal 2003 contributed to a strong financial performance for the year. Our focus on continuous improvement resulted in the following key successes:

- Revenues and EBITDA^(A) each increased 11.3% over the comparative year ended December 31, 2002, largely attributable to strength in our core operations, contract wins and strategic acquisitions.
- BFI Canada's strong performance, as well as the steady growth in free cash flow available for distribution^(B), contributed to a distribution increase of 6.25% to an annualized rate of \$1.275 per trust unit effective August 2003.
- Aggregate distributions declared totaled \$32.6 million, representing a payout ratio of 88% of free cash flow available for distribution^(B).

- BFI Canada completed two strategic tuck-in acquisitions in the Vancouver and Calgary markets, both of which were immediately accretive to free cash flow available for distribution^(B) and consistent with our goal to grow through strategic acquisitions.
- In February of 2003, BFI Canada was awarded a contract to operate the Lethbridge Regional Landfill on behalf of the City of Lethbridge, Alberta until a formal request for proposal process could be completed. In December 2003, BFI Canada began operating the Lethbridge Regional Landfill under a longer-term contract that runs for an initial period of five years with an opportunity to extend a further two years.
- In February of 2004, BFI Canada was awarded a permit to expand its Lachenaie landfill site, serving the Montreal market. This win was a tribute to the focus and dedication of a large team, and was based in part on BFI Canada's exceptional environmental record and strong operational performance.



^(A, B, 2, 3) All definitions for these terms are on page 41 of this report

⁽⁴⁾ For the year ended December 31, 2001 this figure represents total capital expenditures.



"Boots has been with BFI since 1972, and he goes to great lengths to make sure everything is just right, both in his truck and on his route." This kind of conscientious attention to tools and customers is a significant element in BFI Canada's culture of continuous improvement.

BFI Canada driver "Boots" Waugh sits proud in his new truck

When Thunder Bay district driver James "Boots" Waugh discovered he was getting a new truck, he wanted to be the only person to drive it. He's particular about the way his machinery operates, and will go to great lengths to ensure it operates at peak performance. Boots even insisted on going to Toronto himself to collect the truck and drive it all the way back to Thunder Bay.

After finishing his regular route, Boots hopped on a plane to Toronto to collect his big new front-end loader. He drove from Toronto to Thunder Bay, stopping along the way, and arrived in Thunder Bay with the new truck on Sunday of a long weekend.

"Boots had the next day off to rest; however, he came in to check up on the truck and make sure everything was ready," said Tammy Holtzman, District Manager at Thunder Bay. "Boots has been with us since 1972, and he goes to great lengths to make sure everything is just right, both in his truck and on his route."

This kind of conscientious attention to tools and customers is a significant element in BFI Canada's culture of continuous improvement.

Our Roadmap for Success- Continuous Improvement

Many words have been written about continuous improvement and the mechanisms companies can use for its implementation in their core business. At BFI Canada we don't just talk about it; we live it every day in every line of business so that our customers always receive our best.

BFI Canada has never been satisfied with just making the grade. Rather, the route we take is to exceed standards by constantly raising our own corporate

objectives - even when our targets have already been achieved. From drivers to dispatchers, from management to customer service representatives, from front line sales to administration personnel, we raise the bar, doing our utmost to exceed expectations.

This is our roadmap for success, one that we follow with great care.

BFI Canada at-a-glance

Collection

BFI Canada provides non-hazardous, solid waste collection and residential services to over 40,000 customers in 18 markets across the country. The majority of these customers are contracted on three-to-five year agreements, which provide a consistent revenue stream. Routes are configured to maximize productivity levels and are continually managed to ensure optimization is achieved, which in turn leads to greater return on capital. BFI Canada's focus on continuous improvement includes embodying best practices in our collection operations. Technology is key to our success, and at BFI Canada, we ensure that our people have the tools and training to do their jobs well.

Disposal

LANDFILLS

BFI Canada owns and operates three landfill sites serving the communities of Montreal, Calgary, and Winnipeg, and operates a fourth municipally owned landfill serving Lethbridge. Ownership of landfill operations is a fundamental part of BFI Canada's business strategy, enabling the company to vertically integrate, or internalize, our operations.

Internalization gives BFI Canada a real advantage, permitting the collection operations greater flexibility in their operating and management decisions.

In addition, at the Lachenaie landfill, BFI Canada owns and operates a landfill gas-to-energy facility that uses landfill methane gas to generate electricity. The electricity is then sold into the Quebec Hydro power grid.

MATERIAL RECOVERY FACILITIES

BFI Canada operates Material Recovery Facilities ("MRFs") in seven Canadian markets. Our MRFs receive a wide variety of recyclable materials, including cardboard, glass, plastic containers, office paper, and newsprint. Material is supplied from industrial, commercial and municipal customers.

TRANSFER STATIONS

BFI Canada owns and operates two transfer stations. These facilities receive non-hazardous solid waste from local collection trucks and then transfer large volumes to our landfills or our MRFs.



CORPORATE PROFILE

BFI Canada Income Fund is an open-ended limited-purpose trust established under the laws of Ontario. The Fund carries on business through its wholly owned subsidiaries BFI Canada Inc., BFI Usine de Triage Lachenaie Ltd. and Entreprise Sanitaire F.A. Ltée. As one of Canada's largest non-hazardous full-service solid waste management companies, BFI Canada provides landfill disposal services and solid waste collection operations for municipal, commercial, industrial and residential customers across the country.

BFI Canada provides solid waste collection services to customers in 18 markets, and owns and operates three landfill sites, two transfer collection stations, seven material recovery

collection facilities and one landfill gas-to-energy facility. BFI Canada also operates one municipally owned landfill.

Always environmentally conscientious, not only do we operate to the highest standards, but we are progressive in our approach to greenhouse gas reduction. BFI Canada's business does not include any management, collection or disposal of hazardous or liquid waste.

The initial public offering of the Fund's trust units closed on April 25, 2002. The Fund's units are listed on the Toronto Stock Exchange under the symbol BFC.UN, and further information is available on our website, at www.bficana.com.



KEITH CARRIGAN "With annual revenues and EBITDA^(A) both up 11.3% we are pleased with BFI Canada's successes in 2003."

President's message to unitholders

OUR ROADMAP FOR SUCCESS - CONTINUOUS IMPROVEMENT

By all measures, we are pleased with BFI Canada's accomplishments in 2003. Our roadmap for success involves continuous improvement, on every front, and I think that this year has shown how well that basic approach can work.

With annual revenues and EBITDA^(A) up 11.3 percent to \$167.6 million and \$54.3 million, respectively, we are happy with the Fund's operational performance in 2003. BFI Canada's strong revenue and EBITDA^(A) improvement was fueled on the collection side by:

- new collection contracts;
- price increases;
- organic growth; and
- two strategic "tuck-in" acquisitions;

and on the landfill side by:

- higher volumes of non-hazardous solid waste to BFI Canada-owned landfills; and
- the City of Lethbridge landfill operating contract.

There are several elements of BFI Canada's 2003 performance that I think are particularly significant. From the financial perspective, the double-digit revenue and EBITDA^(A) improvement is obviously key, but we also achieved a slightly smaller increase in operating expenses, while increasing our revenue per asset hour, which means our efficiency continues to improve. Although some of our measures are not directly comparable year-over-year for a variety of reasons, including the 251-day period in which we operated as BFI Canada in 2002 (all discussed in our Management Discussion and Analysis), in 2003 we posted the rough equivalent of a 16.6 percent increase in free cash flow available for distribution^(B). This enabled us to implement a 6.25 percent increase in distributions to an annualized rate of \$1.275 per trust unit - a significant achievement for BFI Canada.

From an operations perspective, we consistently look for ways to improve and grow our operations, and this year we had a great deal of assistance from our employees. To mark their many contributions, we have introduced a significant new employee recognition initiative, resulting in our Blue Ribbon Return on Ideas (ROI) and Employee Recognition Awards Programs. I am happy to report that we presented our first Blue Ribbon Employee Recognition Award in December to Tom Muschik, Operations Supervisor in the Chatham District. We also saw our Alberta sales team win a significant contract against stiff competition when they, with much strategic thought and effort, won the University of Calgary as a collection customer.

Moreover, after a rigorous review process, I am happy to announce that in February of 2004, BFI Canada was awarded a permit for a 6.5 million

cubic metre (1.3 million tonnes per year) expansion of our Lachenaie landfill near Montreal. This win was a tribute to the focus and dedication of a large team, and was based in part on BFI Canada's exceptional environmental record as well as its strong ongoing performance.

The key to supporting BFI Canada's outstanding performance in the longer term - our roadmap for success - is our culture of continuous improvement. I have often said that people shouldn't pay too much attention to our corporate targets- we just raise the bar as soon as we've achieved our goals. BFI Canada is steeped in this type of attitude, and we expect and encourage all of our employees to think creatively, systematically and strategically about how to improve, how to drive better returns, and how to help the company excel on every front, from operations to environmental stewardship to governance.

BFI Canada's ongoing goal is to stay the course, growing the business and increasing unitholder value. We will continue to focus on the fundamentals of our business to win new collection contracts, increase landfill revenues and complete accretive acquisitions.

In this process, BFI Canada is dependent on people - our employees, our customers, our neighbours, and our unitholders. While we thank all of you, our stakeholders, for your interest in and support of BFI Canada, we are particularly appreciative of our employees' strong contribution. Each and every one of our employees has the potential to make our business better; this is why we have chosen to highlight them, and the part they play in BFI Canada's success. Thank you.

Sincerely,

(signed)

Keith Carrigan

President and Chief Executive Officer

Our Roadmap for Success: **creating a culture of continuous improvement among our employees**

At BFI Canada, we are working to create a culture of continuous improvement: we constantly monitor the key metrics by which we evaluate our performance to improve operations, augment service levels, and increase our return on capital. One of the most important elements in developing this culture is to encourage each one of our employees to find innovative ways to improve our company.

This is why we created our Blue Ribbon Standard of Excellence for employees. It is an umbrella program that encapsulates the culture of constant improvement, and is designed to benefit all our stakeholders: employees, customers, unitholders and the communities in which we work.

The Blue Ribbon program gives us a context in which to recognize employees who make exceptional contributions to BFI Canada. Good ideas

are rewarded in our "Return on Ideas" program, which provides cash bonuses. Superior performance is rewarded with cash bonuses or gift certificates and special recognition in employee publications.

In truth, there are so many great employees doing great things at BFI Canada that it is difficult to know how to identify the best. For example, the efforts of Colin Harms, Facility Manager for the Lethbridge hauling company and recycler, and his team, were instrumental both to winning an initial recycling contract, and quickly turning that into a major success for BFI Canada - by then winning the contract to manage the municipally owned Lethbridge landfill. But despite the many possibilities, the Blue Ribbon programs provide a systematic guide, and Tom Muschik, pictured here on the far right, exemplifies the type of

achievement that the Blue Ribbon program was created to reward. An employee with BFI Canada since 1995, and recently promoted to Operations Supervisor in Chatham, Tom fills in wherever he sees a need, and often works above and beyond the call of duty. He is diligent, thoughtful, and unfailingly goes the extra mile for our customers.

The contributions of people like Boots (featured on our cover), Colin and Tom have a powerful positive impact. They helped BFI Canada to post revenue and EBITDA⁴¹ growth of 11.3 percent this year; a performance that enabled us to increase unitholders' distributions by 6.25 percent in 2003.



Tom Muschik (far right), Operations Supervisor at BFI Canada's Chatham District and first recipient of the Blue Ribbon Employee Recognition Award, is pictured here with his colleagues Brian Chittle, Operations Manager, and Jeannine Hewings, Inside Sales and Dispatch.

Our Roadmap for Success: continuous improvement for our customers

At BFI Canada we understand that superior service and customer satisfaction are mission critical on our roadmap for success. On the customer side, our goal is to enable customers to do business with us more efficiently.

To that end, we began the process of branding our customer service package as the "Blue Ribbon Service" standard. We raised the bar on customer service commitments in each of our markets to help differentiate BFI Canada from our competitors. For our national accounts, we added custom-tailored waste management and recycling strategies along with more detailed waste stream analysis, reporting and billing. For one new account, we provide automated pick-up. Another new customer win, the University of Calgary contract, saw a very focused Calgary District team employ several

basic principles - never give up, take the time to understand the customer's needs and supply innovative ideas for waste management improvement even before the contract gets signed.

"As they talk to customers and prospects, our sales and service people help to drive constant improvement," said Harold Richardson, Vice President, Alberta. "They find out what our prospective customers need, and then they push us to find ways to meet those demands. It means we are always on the lookout for ways to increase our efficiency and reduce our costs."

BFI Canada has formalized this type of exchange of ideas. At BFI Canada's annual Leadership Conference, employees share views on how to improve sales and customer relationship management. The focus is "best practices" across

the board, and it was at the 2003 conference that the Blue Ribbon "Return on Ideas" program was launched.

It is BFI Canada's intention to expand the Blue Ribbon branding to become the Standard of Excellence in everything we do, from health and safety to investor relations, but customer service is at the core of our commitment to improve. We believe that BFI Canada's Blue Ribbon Customer Service will help us to set the standards for service excellence in the waste management industry.



Every customer, including Toys 'R' Us Canada Ltd., benefits from BFI Canada's Blue Ribbon standard of service (truck driven by Dale Howard).

Our Roadmap for Success: **continuous improvement to protect our environment**

BFI Canada ensures that health and safety remains front and centre in both business operations and employee attitudes. We monitor our performance constantly, and we also provide ongoing training to employees in health and safety matters.

Our approach works. Several of our locations continue to enjoy multi-year no lost-time workplace injury records. As an example, our Kingston location, a labour-intensive material recovery facility, celebrated its sixth year of no lost-time workplace injuries.

To ensure that health and safety continues to improve, BFI Canada uses web-based task-management software to provide a means to track compliance with environmental and health and safety tasks. This system continues to be improved each year and new tasks are continually being added.

"The system provides our employees with advance notification of task requirements, and automatically escalates any overdue issue until compliance standards are met," said Howard Goldby, Vice President, Environmental Health and Safety. "If necessary, it will eventually elevate an issue to the President's office, though I assure you that has never happened."

BFI Canada is also actively contributing research to improve the protection of the environment. In conjunction with EBA Research and the University of Alberta, BFI Canada embarked on a project to investigate ways in which the natural microbial process, or oxidation, could be accelerated to reduce the quantity of methane emitted from landfill sites.

In 2003, encouraging results led to explorations on scaling up the project. BFI Canada will receive

funding assistance through Climate Change Central, which monitors Alberta's greenhouse gas-reduction targets. Successful completion of this research may lead to changes in the design of final covers for landfills.

At our Lachenaie facility, we automatically collect environmental data from an on-site meteorological station. This allows us to adjust operating procedures to help reduce nuisances such as odour, and assists in minimizing any effects on local residential areas. At Lachenaie, our exceptional environmental track record was a key factor in the awarding of a permit to expand the facility.

BFI Canada will continue to seek and develop new tools and technologies to improve the environment for all its stakeholders.



Doug Campbell operates a skid steer loader at our Kingston Material Recovery Facility which recently celebrated its sixth year of no lost-time workplace injuries.

Management's Discussion and Analysis

For the year ended December 31, 2003

The following is a discussion of the consolidated financial condition and results of operations of BFI Canada Income Fund (the "Fund") for the year ended December 31, 2003. This discussion should be read in conjunction with the Consolidated Financial Statements of BFI Canada Income Fund, including notes thereto, and Management's Discussion and Analysis ("MD&A") for the period from April 25, 2002 to December 31, 2002. Comparative operating results for the year ended December 31, 2002, include the results of 3743276 Canada Inc., one of the predecessors of BFI Canada Holdings Inc., for the period from January 1, 2002 to April 24, 2002. The Fund indirectly acquired all of the issued and outstanding shares of 3743276 Canada Inc. on April 25, 2002 in connection with the closing of its initial public offering of trust units. For financial reporting purposes the Fund has only consolidated the results of BFI Canada Holdings Inc. with its results since April 25, 2002. Reference is made to the prospectus of the Fund dated April 16, 2002 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

CORPORATE OVERVIEW

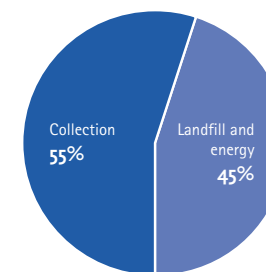
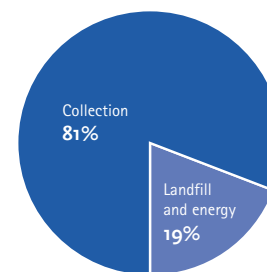
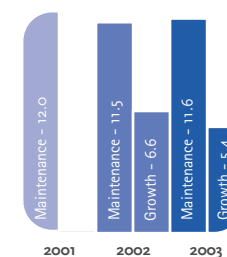
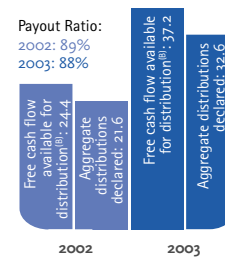
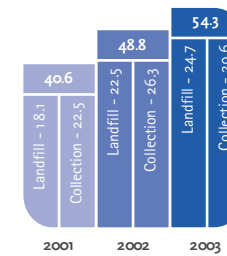
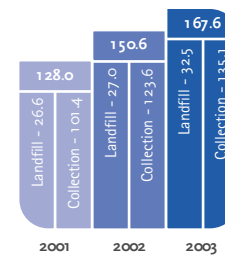
The Fund, through its operating subsidiaries, is one of Canada's largest full-service waste management companies providing non-hazardous solid waste collection and landfill disposal services in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. The Fund operates one and owns and operates three landfills, carries on solid waste collection operations in 18 markets and operates two transfer collection stations, seven material recovery facilities ("MRFs") and one landfill gas to energy facility. The Fund makes cash distributions to its unitholders based on all amounts received from its subsidiaries, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the trustees, and amounts related to the redemption of units payable in cash. The Fund's declaration of trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month.

HIGHLIGHTS FOR THE YEAR ENDED

DECEMBER 31, 2003

- Revenues and EBITDA^(A) each increased 11.3% over the comparative year ended December 31, 2002
- Core operations, contract wins and strategic acquisitions continued to support the Fund's revenue and EBITDA^(A) growth
- Aggregate distributions declared totalled \$32.6 million, representing a payout ratio of 88% of free cash flow available for distribution^(B)
- Distributions increased 6.25% to an annualized rate of \$1.275 per trust unit beginning with the distribution payable on September 15, 2003 to unitholders of record on August 31, 2003

(in millions except for per unit amounts)	Year Ended 2003 ⁽¹⁾	Year Ended 2002 ⁽²⁾
Revenues	\$ 167.6	\$ 150.6
Operating expenses	87.8	79.0
Selling, general and administration expenses	25.5	22.8
Income before the following		
Amortization	54.3	48.8
Interest on long-term debt	41.9	39.4
Net gain on sale of capital and landfill assets	5.1	7.0
Other expenses	(0.5)	–
Income before income taxes	7.8	0.9
Income tax recovery	(5.8)	(3.9)
Net income	\$ 13.6	\$ 4.8
Net income per trust unit, basic and diluted	\$ 0.51	\$ 0.18
Number of units outstanding (thousands)	26,500	26,500
Maintenance capital expenditures	\$ 11.6	\$ 11.5
Growth capital expenditures	5.4	6.6
Total capital expenditures	\$ 17.0	\$ 18.1
Free cash flow available for distribution ^{(3)(B)}	\$ 37.2	\$ 24.4
Free cash flow available for distribution ^(B) per trust unit ⁽³⁾	\$ 1.40	\$ 0.92
Aggregate distributions declared ⁽³⁾	\$ 32.6	\$ 21.6
Aggregate distributions declared per trust unit ⁽³⁾	\$ 1.23	\$ 0.82



^(A, B, 1, 2, 3) All definitions and relevant notes for these terms are on page 41 of this report.

⁽⁴⁾ For the year ended December 31, 2001 this figure represents total capital expenditures.

Review of Operations

(For the year ended December 31, 2003)

REVENUES

Revenues for the year ended December 31, 2003 increased \$17.0 million or 11.3% to \$167.6 million. Approximately \$11.5 million of the year over year increase relates to the solid waste collection ("collection") segment with the remaining \$5.5 million contributed by the landfill and energy ("landfill") segment. Consolidation of Entreprise Sanitaire F.A. Ltée's ("F.A.") collection and transfer station operations for the year ended December 31, 2003 versus the ten month period March 1, 2002 to December 31, 2002 resulted in additional revenues of \$2.3 million. Additional contributions to the year over year increase in collection revenues include: new collection contracts that commenced in the first quarter of 2003, \$2.8 million, two strategic "tuck-in" acquisitions, \$0.9 million, with the balance of the collection segment increase attributable to a combination of price increases and organic growth totalling \$6.7 million, net of \$1.2 million in expired low margin residential collection contracts. Higher volumes of non-hazardous solid waste entering BFI Canada-owned landfills, most notably in Calgary, generated additional revenues totalling \$4.0 million while the City of Lethbridge landfill operating contract contributed \$1.5 million to revenue growth in the Fund's landfill segment.

OPERATING EXPENSES

Operating expenses for the year ended December 31, 2003 increased \$8.8 million or 11.1% to \$87.8 million. The collection segment experienced a \$5.0 million increase year over year. Consolidation of F.A.'s collection and transfer station operations for two additional months contributed \$1.4 million to the collection segment increase, with the balance attributable to higher costs to service new collection contracts commencing in the first quarter of 2003, organic revenue growth, and higher year over year costs to service existing customers totalling \$4.7 million, partially offset by approximately \$1.1 million in cost savings associated with the expiration of low margin residential contracts. Landfill operating costs increased by \$3.8 million due to the operation of the City of Lethbridge landfill and higher costs incurred to handle higher volumes of non-hazardous solid waste entering BFI Canada-owned landfills.

SELLING, GENERAL AND ADMINISTRATION EXPENSES

Selling, general and administration expenses for the year ended December 31, 2003 increased \$2.7 million to \$25.5 million. The increase is attributable to the following: consolidation of F.A.'s collection operations for two additional months, \$0.2 million, an increase in senior management compensation, the addition of corporate employees and public company costs, \$1.0 million, establishing the long-term incentive plan ("LTIP"), \$0.6 million, plus other variances totalling \$0.9 million, including an increase in field management and staff compensation and higher facility operating costs.

INCOME BEFORE AMORTIZATION, INTEREST ON LONG-TERM DEBT, NET GAIN ON SALE OF CAPITAL AND LANDFILL ASSETS, OTHER EXPENSES AND INCOME TAXES ("EBITDA^(A)")

EBITDA^(A) for the year ended December 31, 2003 increased \$5.5 million or 11.3% to \$54.3 million compared to the year ended December 31, 2002. Contributing to the year over year EBITDA^(A) improvement was the consolidation of F.A.'s collection and transfer station operations for two additional months in 2003, operating the City of Lethbridge landfill, albeit at a lower EBITDA^(A) margin than BFI Canada-owned landfills, accepting higher volumes of non-hazardous solid waste at BFI Canada-owned landfills, new collection contracts, organic growth and price increases in the collection segment, and two strategic "tuck-in" acquisitions, partially offset by higher selling, general and administration expenses, including the LTIP plan established in the current year. Management of the Fund remains committed to growing the business, realizing operating efficiencies and managing selling, general and administration expenses.

NET GAIN ON SALE OF CAPITAL AND LANDFILL ASSETS

In August and December 2003, the Fund sold surplus parcels of land near its Winnipeg and Calgary landfill sites resulting in a \$0.3 million loss and \$0.8 million gain, respectively.

^(A) The definition for this term is on page 41 of this report.

AMORTIZATION, INTEREST ON LONG-TERM DEBT, OTHER EXPENSES AND INCOME TAXES FOR THE YEAR ENDED DECEMBER 31, 2002 ARE NOT COMPARABLE TO THE FIGURES FOR THE YEAR ENDED DECEMBER 31, 2003 FOR THE FOLLOWING REASONS:

Amortization expense

Amortization expense is not comparable due primarily to the change in the carrying values of the Fund's assets relative to its predecessor 3743276 Canada Inc. Amortization expense of the Fund includes amortization of the following fair value adjustments occurring on the closing of its initial public offering: customer collection contracts \$78.5 million, capital assets \$5.5 million, and landfill assets \$60.3 million.

Interest on long-term debt

Interest on long-term debt is not comparable due to the change in the Fund's capital structure relative to its predecessor 3743276 Canada Inc. Interest expense of 3743276 Canada Inc. included imputed interest on a subordinated debenture and interest on its non-revolving, term, bridge and other loans for the period from January 1, 2002 to April 24, 2002. On the closing of the initial public offering and the concurrent amalgamation of 3743276 Canada Inc. with BFI Canada Holdings Inc., \$41.9 million was paid in full satisfaction of the principal and interest outstanding on the non-revolving loan, \$17.6 million was paid in partial satisfaction of the principal together with all interest outstanding on the term and bridge loans and a \$12.5 million payment was paid in full satisfaction of amounts owing to the holder of the subordinated debenture. All payments were made in respect of obligations of the predecessor company. Interest expense of the Fund relates specifically to interest on its term and revolving loans which were made concurrently with the closing of the initial public offering.

Other expenses

Other expenses include corporate development and organizational costs, management severance costs, management fees and a special one-time management bonus issued in connection with the closing of the initial public offering. Other expenses were exclusive to 3743276 Canada Inc. and are therefore not directly comparable.

Income taxes

Income taxes are not comparable due to the change in the taxable structure of the Fund versus its predecessor.

Other Performance Measures

CAPITAL EXPENDITURES

Capital expenditures for the year ended December 31, 2003 were lower than the comparative year by \$1.1 million due principally to the decline in growth capital expenditures. Growth capital expenditures were lower in the current year by \$1.2 million, due primarily to vehicle purchases made during the fourth quarter of 2002 to service collection contracts that commenced in the first quarter of 2003. The \$0.1 million increase in maintenance capital expenditures is not attributable to any one significant variance.

FREE CASH FLOW AVAILABLE FOR DISTRIBUTION^(B)

Free cash flow available for distribution^(B) totalled \$37.2 million for the year ended December 31, 2003 and \$24.4 million for the period from April 25, 2002 to December 31, 2002. Distributions totalling \$32.6 million for the year ended December 31, 2003 and \$21.6 million for the period from April 25, 2002 to December 31, 2002, represent payout ratios of free cash flow available for distribution^(B) of 88% and 89%, respectively. Undistributed free cash flow available for distribution^(B) for the year ended December 31, 2003 equals \$4.6 million and for the period from April 25, 2002 to December 31, 2003 totalled \$7.4 million. To date, undistributed free cash flow available for distribution^(B) has been utilized to offset the demands of growth capital expenditures, working capital uses, deferred costs and other receivables.

Management of the Fund has elected to define and calculate free cash flow available for distribution^(B) using an operations approach. Free cash flow available for distribution^(B) using a cash flow approach is presented below for comparative purposes.

^(B) The definition for this term is on page 41 of this report.

(in millions)	Year ended Dec. 31, 2003	Period from April 25, 2002 to Dec. 31, 2002
Cash generated from operating activities (per statements of cash flows)	\$ 47.4	\$ 33.3
Add changes in non-cash working capital items	2.2	(2.1)
Less provision for landfill closure and post-closure costs	(3.0)	(1.9)
Add landfill closure and post-closure expenditures	2.2	1.9
Less maintenance capital expenditures	(11.6)	(6.8)
Free cash flow available for distribution ^(B)	\$ 37.2	\$ 24.4

Financial Condition

ACCOUNTS RECEIVABLE

Accounts receivable increased by \$0.9 million from December 31, 2002 which is principally attributable to an increase in amounts due from collection customers. The collection quality of receivables remains high with less than five percent of total trade receivables in excess of ninety days. Total bad debt charges are less than one percent of revenues.

OTHER RECEIVABLES

The increase in other receivables relates specifically to collection contracts with cities in the province of Quebec which commenced January 1, 2003. The receivables are financed over 5 years and are repayable monthly in aggregate annual payments of \$0.7 million.

CAPITAL ASSETS

The decline in capital assets is due principally to amortization exceeding capital assets purchased by \$2.9 million. Asset disposals net of assets acquired from strategic "tuck-in" acquisitions account for the balance of the \$5.3 million year over year decline. Significant capital expenditures in the coming year include replacement and growth vehicle, container and equipment purchases.

LANDFILL ASSETS

Landfill assets represent the largest balance sheet asset of the Fund and total \$113.1 million at December 31, 2003. Landfill permits together with projected construction and development costs are being amortized as landfill airspace is consumed. Significant landfill asset expenditures in the coming year include infrastructure and cell development related specifically to the Lachenaie north expansion.

WORKING CAPITAL POSITION

The Fund has a current working capital position, representing total current assets less current liabilities, of approximately \$8.3 million, an increase of \$3.2 million from the December 31, 2002 position of \$5.1 million. The increase is primarily due to the Fund's draws on its revolving loan facility to pay for growth capital expenditures included in accounts payable and accrued liabilities at December 31, 2002, and to finance other receivables incurred in the preceding period.

Liquidity and Capital Resources

The Fund has available a revolving loan to a maximum of \$28.6 million, of which \$8.6 million relates specifically to a letter of credit required to operate one of the Fund's landfills. The remaining \$20.0 million is available to fund changes in working capital and non-operating liquidity requirements including acquisitions and growth capital expenditures. Cash generated from operations for the year ended December 31, 2003

totalled \$47.4 million. The use of working capital in the current year is due principally to a reduction in accounts payable and accrued liabilities, \$3.8 million, which is due in large part to liabilities recognized late in 2002 for capital items required to meet the demand of new collection contracts that commenced in January 2003, offset by a \$1.9 million reduction in prepaid expenses which is principally due to advance purchases of assets to satisfy collection contract commitments that commenced in the first quarter of 2003. Cash utilized in investing activities totalled \$18.5 million, of which \$17.0 million was used to purchase capital and landfill assets, \$2.4 million was used to acquire the solid waste collection assets of businesses in the provinces of British Columbia and Alberta, and \$1.2 million was invested in Lachenaie landfill north expansion efforts. The aforementioned uses of cash from investing activities were partially offset from proceeds on the sale of surplus lands near the Fund's Winnipeg and Calgary landfill sites. Proceeds received from the sale of these lands were used principally to make repayments on the Fund's revolving loan facility. Current year draws on the Fund's revolving loan facility were used to finance current year acquisitions, growth capital expenditures and other receivables.

Distributions

The Fund paid cash distributions to unitholders of \$1.225 per unit for the year ended December 31, 2003 and declared a distribution payable to unitholders of record on December 31, 2003, payable January 15, 2004 of \$0.10625 per unit. During the year the Fund increased its distribution rate by 6.25% to an annualized rate of \$1.275 per trust unit beginning with the distribution payable on September 15, 2003 to unitholders of record on August 31, 2003.

Risks and Uncertainties

The risks and uncertainties disclosed in the Fund's Annual Information Form for the year ended December 31, 2002 remain substantially unchanged.

Outlook

On February 10, 2004, the Fund received a decree from the Quebec Government issued on February 4, 2004 to expand the Lachenaie landfill site. The decree was issued after a lengthy review process including public consultation and a detailed evaluation by the Ministry of the Environment. The decree approves, subject to several conditions, the expansion design with a total projected capacity of 40.0 million metric tonnes, and limits the approved operating capacity to 6.5 million cubic metres which, depending on the annual volume of non-hazardous solid waste entering the site, should be the equivalent of between 5.0 and 6.5 years of operation. The decree also increases the maximum annual landfill volume from the current 0.97 million metric tonnes to 1.3 million metric tonnes. Future approvals to continue operating the Lachenaie landfill are expected to increase its total operating capacity, and accordingly its operating life, an additional 33 million cubic metres or approximately 35 years based on current disposal volumes and a six day per week operation. Future approvals to expand the Lachenaie landfill are required to complete the filling of the then remaining unfilled airspace capacity. While the granting of any permit is entirely within the discretion of the Quebec Government, management expects to receive the necessary permits prior to the expiry of the then current permit. Although management believes the Fund will be successful in obtaining the required permits, there are no assurances that the relevant approvals will be granted or, if granted, that they will be on the terms applied for by the Fund.

The decree for the expansion is subject to various conditions which impose obligations on the Fund. These conditions are similar to those contained in the current operating permit with the exception of an additional public liaison committee and the manner in which financial guarantees are satisfied for post-closure management.

The receipt of this decree obligates the Fund to pay a royalty to an annual maximum of \$1.5 million to an aggregate maximum of \$6.0 million. Management intends to offset the annual royalty expense with increased revenues generated from the expansion site.

In the fourth quarter, the Fund was awarded a contract extension to operate the Lethbridge Regional Landfill, on behalf of the City of Lethbridge, for an initial period of five years with the opportunity for an additional two year extension.

Management is actively reviewing financing alternatives to efficiently finance its future growth initiatives.

Looking ahead, management's principal objective is to increase free cash flow available for distribution⁽⁸⁾ by continuing to enhance the Fund's service offerings, improving efficiencies and growing through strategic acquisitions. In this regard, management continuously reviews and evaluates potential strategic acquisitions; especially those that can increase free cash flow and, accordingly, distributions. Future strategic initiatives may be financed with borrowings, the issuance of additional units, from working capital or from cash flow generated from operations.

Management expects that the Fund will be able to progressively increase future distributions as free cash flow available for distribution⁽⁸⁾ increases. Increases will be considered by the Trustees as appropriate.

New Accounting Policies

Effective March 2003, the Canadian Institute of Chartered Accountants ("CICA") issued a new Canadian accounting standard for asset retirement obligations, which requires the recognition of an obligation associated with the retirement of a tangible long-lived asset that an entity is legally obligated to settle. The new standard is effective for fiscal years beginning on or after January 1, 2004 and requires the Fund to retroactively restate all comparative consolidated financial statements. Accordingly, the December 31, 2003 consolidated financial statements will be restated for all future comparative purposes. Adopting the new accounting standard is expected to have a material impact on landfill assets and closure and post-closure costs; however,

it will have no impact on cash generated from operating activities or free cash flow available for distribution⁽⁸⁾.

Effective May 2003, the CICA amended CICA 1540, cash flow statements, and CICA 3500, earnings per share. The amendment to CICA 1540 prohibits the disclosure of cash flow amounts per share in financial statements, except for dividends or similar cash distributions to owners. The amendment to CICA 3500 prohibits the disclosure of income per share amounts, other than earnings per share disclosure required by CICA 3500, in financial statements, except as specifically provided for by another handbook section. Adopting the amendments does not impact the Fund's consolidated financial statement disclosures.

Effective June 2003, the CICA issued a new Canadian accounting standard for generally accepted accounting principles ("GAAP"), which provides additional clarity regarding what constitutes Canadian GAAP and its sources and what to consult when selecting accounting policies and disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The section is effective for fiscal years beginning on or after October 1, 2003 and earlier adoption is encouraged. Adopting the new accounting standard does not impact the consolidated financial statements of the Fund.

Effective June, 2003, the CICA issued a new Canadian accounting standard for general standards of financial statement presentation. The section revises and replaces general standards of financial statement presentation, CICA 1500, and clarifies what constitutes fair presentation in accordance with GAAP. The standard removes the ability for an entity to depart from a handbook recommendation when that recommendation would result in misleading financial statements. Adopting the new accounting standard does not impact the consolidated financial statements of the Fund.

Effective June, 2003, the CICA issued Accounting Guideline 15, consolidation of variable interest entities. The accounting guideline provides guidance in determining when an

⁽⁸⁾ The definition for this term is on page 41 of this report.

enterprise applies consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Adopting the accounting guideline does not impact the consolidated financial statements of the Fund.

Accounting Guideline 14, disclosure of guarantees, is effective for years beginning on or after January 1, 2003. The guideline requires that the guarantor disclose significant information about guarantees it has provided to third parties, without regard to its evaluation of whether it will have to make any payments under the guarantees. Disclosures required upon adoption of this standard are included in note 17 to the consolidated financial statements of the Fund for the year ended December 31, 2003 and for the period from April 25, 2002 to December 31, 2002.

CICA section 3475, disposal of long-lived assets and discontinued operations, is effective for years beginning on or after May 1, 2003. The section establishes recognition, measurement, presentation and disclosure standards for the disposal of long-lived assets. The section requires that long-lived assets, to be disposed of other than by sale, be classified as held, establishes various requirements for the classification of long-lived assets as held for sale and requires that long-lived assets held for sale be carried at the lower of cost and fair value less cost to sell. The section also establishes standards for the presentation and disclosure of discontinued operations and provides a broader definition of what constitutes a discontinued operation. Adopting the new accounting standard is not expected to impact the consolidated financial statements of the Fund.

CICA section 3063, impairment of long-lived assets, is effective for years beginning on or after April 1, 2003. The section establishes standards for the recognition, measurement and disclosure of impaired long-lived assets. The standard requires that an impairment loss should be recorded when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Early adopting the new accounting standard did not impact the consolidated financial statements of the Fund.

Disclaimer

This document may contain forward-looking statements relating to the Fund's operations or to the environment in which it operates, which are based on the Fund's operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, or are beyond the Fund's control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in the Fund's Annual Information Form for the year ended December 31, 2002. Consequently, readers should not rely on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, the Fund cannot assure unitholders that actual results will be consistent with these forward looking statements, and the Fund disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management's Responsibility for **Financial Reporting**

The consolidated financial statements of BFI Canada Income Fund and all the information in this annual report are the responsibility of management and have been approved by the Trustees.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this annual report has been prepared on a basis consistent with that in the consolidated financial statements.

BFI Canada Income Fund maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Fund's assets are properly accounted for and adequately safeguarded.

The Trustees are responsible for ensuring that management fulfills its responsibilities for financial reporting and are ultimately responsible for reviewing and approving the consolidated financial statements. The Trustees carry out this responsibility principally through their Audit Committee.

The Audit Committee is appointed by the Trustees and is comprised entirely of non-management Trustees. The Audit Committee meets periodically with management and the external auditors to discuss auditing, internal controls, accounting policy and financial reporting matters. The Audit Committee reviews the consolidated financial statements with both management and the external auditors and reports its findings to the Trustees before such statements are approved by the Trustees.

The consolidated financial statements have been audited by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the unitholders. The external auditors have full and free access to the Audit Committee.

(signed)

Keith Carrigan

President and Chief Executive Officer

(signed)

Joseph D. Quarin

Chief Financial Officer

Auditors' Report

To the Unitholders of BFI Canada Income Fund

We have audited the consolidated balance sheets of BFI Canada Income Fund as at December 31, 2003 and 2002 and the consolidated statements of operations, unitholders' equity and cash flows for the periods then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

(signed)
Chartered Accountants
Toronto, Canada
February 20, 2004

Consolidated Balance Sheets

December 31, 2003 and 2002 (in thousands of dollars)

	2003	2002
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 6,704	\$ 5,666
Accounts receivable	25,838	24,962
Other receivables (Note 5)	1,203	415
Prepaid expenses	2,081	3,959
	35,826	35,002
OTHER RECEIVABLES (Note 5)	3,284	1,509
INTANGIBLES (Note 6)	66,993	77,805
GOODWILL	49,171	49,171
DEFERRED COSTS	3,069	1,832
DEFERRED FINANCING COSTS	1,176	2,058
CAPITAL ASSETS (Note 7)	84,359	89,665
LANDFILL ASSETS (Note 8)	113,084	122,399
	\$ 356,962	\$ 379,441

	2003	2002
LIABILITIES		
CURRENT		
Accounts payable	\$ 11,866	\$ 15,410
Accrued charges	5,836	6,076
Distribution payable	2,816	2,650
Income taxes payable	346	157
Deferred revenue (Note 5)	6,400	5,360
Current portion of long-term debt (Note 9)	271	252
	27,535	29,905
LONG-TERM DEBT (Note 9)	81,313	76,985
LANDFILL CLOSURE AND POST-CLOSURE COSTS (Note 10)	8,870	8,013
FUTURE INCOME TAX LIABILITIES (Note 11)	19,036	25,298
	136,754	140,201
UNITHOLDERS' EQUITY (Note 12)	220,208	239,240
	\$ 356,962	\$ 379,441

On behalf of the Trustees

(signed)
Keith Carrigan
Trustee

(signed)
T. Iain Ronald
Trustee

Consolidated Statements of Operations

For the year ended December 31, 2003 and for the period from April 25, 2002 to December 31, 2002 (in thousands of dollars, except net income per trust unit amounts)

	2003	2002 <i>(Note 2)</i>
REVENUES	\$ 167,626	\$ 108,506
EXPENSES		
OPERATING	87,835	56,933
SELLING, GENERAL AND ADMINISTRATION <i>(Note 18)</i>	25,452	16,505
INCOME BEFORE THE FOLLOWING	54,339	35,068
AMORTIZATION	41,945	30,217
INTEREST ON LONG-TERM DEBT	5,137	3,118
NET GAIN ON SALE OF CAPITAL AND LANDFILL ASSETS	(527)	—
INCOME BEFORE INCOME TAXES	7,784	1,733
INCOME TAX EXPENSE (RECOVERY) <i>(Note 11)</i>		
Current	450	830
Future	(6,262)	(4,982)
	(5,812)	(4,152)
NET INCOME	\$ 13,596	\$ 5,885
Net income per trust unit, basic and diluted	\$ 0.51	\$ 0.22
Weighted average number of units outstanding (thousands)	26,500	26,500

Consolidated Statements of Cash Flows

For the year ended December 31, 2003 and for the period from April 25, 2002 to December 31, 2002 (in thousands of dollars)

	2003	2002 <i>(Note 2)</i>		2003	2002 <i>(Note 2)</i>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES					
OPERATING					
Net income	\$ 13,596	\$ 5,885			
Items not affecting cash					
Amortization of intangibles	12,346	8,357			
Amortization of deferred financing costs	882	588			
Amortization of capital assets	16,622	13,891			
Amortization of landfill assets	12,095	7,381			
Gain on disposal of capital assets	(785)	–			
Loss on disposal of landfill assets	258	–			
Provision for landfill closure and post-closure costs	3,061	1,899			
Future income taxes	(6,262)	(4,982)			
Landfill closure and post-closure expenditures	(2,204)	(1,826)			
	49,609	31,193			
Changes in non-cash working capital items	(2,226)	2,146			
Cash generated from operating activities	47,383	33,339			
INVESTING					
Acquisitions <i>(Note 4)</i>	(2,376)	(158,660)			
Investment in other receivables	(2,850)	(987)			
Proceeds from other receivables	1,089	50			
Purchase of capital assets	(13,762)	(9,497)			
			Landfill assets	(3,233)	(3,880)
			Proceeds on disposal of capital assets	3,691	–
			Proceeds on disposal of landfill assets	195	–
			Deferred costs	(1,237)	(396)
			Cash utilized in investing activities	(18,483)	(173,370)
			FINANCING		
			Proceeds from revolving loan	8,650	5,250
			Repayments of revolving loan	(4,050)	–
			Issue of trust units	–	176,609
			Trust units purchased for cancellation	–	(17,170)
			Distributions paid to unitholders	(32,462)	(18,992)
			Cash (utilized in) generated from financing activities	(27,862)	145,697
			NET CASH INFLOW	1,038	5,666
			CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,666	–
			CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 6,704	\$ 5,666
			SUPPLEMENTAL CASH FLOW INFORMATION:		
			Cash and cash equivalents are comprised of:		
			Cash	\$ 3,864	\$ 2,652
			Cash equivalents	2,840	3,014
				\$ 6,704	\$ 5,666
			Cash paid during the period for:		
			Income taxes	\$ 1,309	\$ 493
			Interest	\$ 5,183	\$ 3,410

Consolidated **Statements of Unitholders' Equity**

For the year ended December 31, 2003 and for the period from April 25, 2002 to December 31, 2002 (in thousands of dollars)

	2003	2002 <i>(Note 2)</i>
BALANCE, BEGINNING OF PERIOD	\$ 239,240	\$ —
Issue of trust units	—	272,167
Cancellation of trust units	—	(17,507)
Contributed surplus	—	337
Net income	13,596	5,885
Distributions	(32,628)	(21,642)
BALANCE, END OF PERIOD	\$ 220,208	\$ 239,240

Notes to the Consolidated Financial Statements

For the year ended December 31, 2003 and for the period from April 25, 2002 to December 31, 2002 (in thousands of dollars)

1. Organization

BFI Canada Income Fund (the "Fund") is an open ended, limited purpose trust established under the laws of the Province of Ontario and governed by an amended and restated declaration of trust dated April 15, 2002. The Fund holds the common shares and notes of BFI Canada Holdings Inc. ("Holdings") and through its operating subsidiary BFI Canada Inc. ("BFI Canada") and its two subsidiaries BFI Usine de Triage Lachenaie Ltd. ("BFI Usine") and Entreprise Sanitaire F.A. Ltée ("F.A."), provides non-hazardous solid waste collection and landfill disposal services for commercial, industrial and residential customers in the provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec. The Fund makes cash distributions to unitholders based on all amounts received by the Fund, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the Trustees, and amounts related to the redemption of units payable in cash and interest expense. The declaration of trust provides that monthly cash distributions are to be paid on or about the fifteenth day of the succeeding month.

2. Comparative Financial Statements

The Fund commenced operations on April 25, 2002. Accordingly, the comparative consolidated statements of operations, of cash flows and of unitholders' equity are for the period from April 25, 2002 to December 31, 2002.

3. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries, Holdings, BFI Canada, BFI Usine and F.A. All intercompany accounts and transactions have been eliminated on consolidation.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Effective February 10, 2004, the Fund received approval to expand the capacity of the Lachenaie landfill by an additional 6.5 million cubic metres which, depending on the annual volume of non-hazardous solid waste entering the site, is the equivalent of between 5.0 and 6.5 years of operation (see note 19). In the event that the Fund is not successful in obtaining future Lachenaie landfill expansion permits, the following assets would be subject to material adjustment; goodwill, \$19,859, deferred costs, \$2,923 and landfill assets (Note 8), \$81,441. Management remains confident that approval for additional expansions will be obtained prior to the expiry of the Fund's current permit and accordingly no provision for impairment has been recorded.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term, highly liquid money market investments that have an original maturity of three months or less.

OTHER RECEIVABLES

Other receivables include a direct finance lease receivable and long-term finance receivables.

Assets leased under terms which transfer substantially all of the benefits and risks and rewards of ownership to customers are accounted for as direct finance lease receivables. Direct finance lease receivables are carried at cost and discounted at the underlying rate implicit in the receivable.

Long-term finance receivables are carried at cost plus unearned finance revenues.

The fair value of other receivables is estimated using discounted cash flow analysis applying interest rates consistent with the credit quality of the borrower. Other receivables are periodically reviewed for impairment and any resulting write-down to the net recoverable amount is recorded in the period in which the impairment occurs.

INTANGIBLES

Intangible assets include customer collection contracts, customer lists, transfer station permits and trade-names and are deemed to have finite lives. Finite life intangibles are amortized on a straight-line basis as follows:

Customer collection contracts

Average term of the contract plus one renewal period after giving effect to estimated annual customer attrition of 3%.

Customer lists

Over the term of the non-competition agreement included in the underlying purchase and sale agreement of the acquisition.

Transfer station permits

Length of the permit.

Trade-names

10-13 years.

GOODWILL

Goodwill is not amortized and is tested at least annually for impairment or more frequently if an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. Any resulting write-down, representing the difference between fair value and the carrying amount, is recorded in the period in which the impairment occurs. The annual impairment test was completed on April 24, 2003 and did not result in the recognition of an impairment loss.

DEFERRED COSTS

Deferred costs relate to the development of landfills, including landfill permitting costs, and other capital projects for which amortization has not yet commenced. Management periodically reviews the carrying values of deferred costs for possible impairment and any resulting write-down to the net recoverable amount is recorded in the period in which the impairment occurs.

DEFERRED FINANCING COSTS

Deferred financing costs represent fees and costs in connection with securing long-term debt. The Fund amortizes these costs over the term of the debt.

CAPITAL ASSETS

Capital assets are recorded at cost and are amortized over their estimated useful lives on a straight-line basis as follows:

Buildings and improvements	20-40 years
Vehicles and equipment	3-8 years
Containers and compactors	5-10 years
Furniture, fixtures and computer equipment	3-10 years

LANDFILL ASSETS

Landfill assets represent the cost of landfill airspace, including original acquisition cost and incurred landfill construction and development costs. The cost of landfill permits, together with projected landfill construction and development costs, is being amortized on a per unit basis as landfill airspace is consumed. Management annually updates landfill capacity estimates based on survey information provided by independent engineers. The impact on annual amortization expense of changes in estimated capacity and construction costs is accounted for prospectively.

Total available disposal capacity for the purpose of amortizing landfill assets represents the sum of estimated permitted airspace capacity (having received the final permit from the governing authorities) plus deemed permitted airspace capacity, which represents an estimate of airspace capacity that management believes is probable of ultimately being permitted based on the following criteria:

- Personnel are actively working to obtain the permit or permit modifications necessary for expansion of an existing landfill, and progress is being made on the project;
- It is probable that the required approvals will be received within the normal application and processing time periods for approvals in the jurisdiction in which the landfill is located;
- The Fund has a legal right to use or obtain land associated with the expansion plan;
- There are no significant known political, technical, legal or business restrictions or issues that could impair the success of such expansion;
- A financial feasibility analysis has been completed, and the results demonstrate that the expansion has a positive financial and operational impact such that management is committed to pursuing the expansion; and
- Additional airspace capacity and related costs have been estimated based on the conceptual design of the proposed expansion.

Generally, the Fund and its predecessor have been successful in receiving approvals for expansions pursued; however, there can be no assurance that the Fund will be successful in obtaining approvals for landfill expansions in the future.

LANDFILL CLOSURE AND POST-CLOSURE COSTS

Accrued landfill closure and post-closure costs relate to the remediation, monitoring and maintenance costs to be incurred at the Fund's operating landfills after the sites cease accepting waste. Closure costs include the costs required to cap the filled cells of the landfill and dismantle and remove certain structures. Post-closure costs include substantially all costs that are required to be incurred subsequent to the closure of the landfill, including groundwater monitoring and leachate management. Current estimates of these costs are determined at least annually by the Fund's engineers and accounting personnel based on the landfill regulations governing each facility. A per unit cost is

determined by dividing the remaining costs not yet accrued by the remaining permitted airspace capacity to be consumed. The annual charge to expense represents the per unit cost multiplied by the number of units consumed during the year. Changes in estimated capacity that impact the per unit cost are accounted for prospectively.

Estimating the cost of closure and post-closure obligations requires management to make a number of assumptions about potential technological or regulatory developments in the future. The ultimate costs may differ from current estimates.

INCOME TAXES

Future income taxes are calculated using the liability method of tax allocation accounting. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates on future income tax assets and liabilities is recognized to operations in the period in which the change occurs.

REVENUES

Revenues consist primarily of waste collection fees from commercial, industrial and residential customers and transfer and landfill disposal fees charged to third parties. For waste collection and disposal activities, revenue is recognized when service is provided, which is upon disposal of the waste collected.

Deferred revenue relates to long-term collection contracts, under which advanced billing occurs prior to the services being performed.

Revenue from the direct finance lease receivable is recognized in a manner that produces a constant rate of return on the lease investment.

Revenue from long-term finance receivables is recognized on an amortizing basis over the term of the underlying receivable.

IMPAIRMENT OF LONG-LIVED ASSETS

Effective January 1, 2003, the Fund adopted the new Canadian accounting standard for impairment of long-lived assets, which requires that an impairment loss should be recognized when events or circumstances indicate that the carrying amount of

the long-lived asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.

EMPLOYEE FUTURE BENEFITS

The costs of retirement benefits, other than pensions and certain post-employment benefits, are recognized over the period in which the employee renders services in return for those benefits. Other post-employment benefits are recognized when the event giving rise to the obligation occurs.

The Fund maintains both defined contribution and defined benefit pension plans and accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Fund has adopted the following policies:

- The cost of pensions earned by employees is actuarially determined using the projected unit credit cost method pro rated on service and management's best estimate of expected plan investment performance for funded plans, salary escalation and retirement ages of employees.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 10.3 years.

4. Acquisitions

(i) On April 25, 2002, the Fund, through Holdings, acquired all of the outstanding common shares, convertible debentures and warrants of 3743276 Canada Inc. ("BFI Holdco") using the purchase method of accounting, for total consideration of \$249,439. BFI Holdco was incorporated under the Canada Business Corporations Act and through its three primary operating subsidiaries, BFI Canada, BFI Usine and F.A. provided non-hazardous solid waste collection and landfill disposal services for commercial, industrial and residential customers in the Provinces of British Columbia, Alberta, Manitoba, Ontario and Quebec.

Net assets acquired:

Current assets, including cash of \$1,081	\$ 22,551
Intangibles	86,007
Goodwill	51,175
Deferred costs	1,436
Deferred financing costs	2,646
Capital assets	93,912
Landfill assets	125,900
Other long-term assets	986
Current liabilities	(17,405)
Long-term debt	(71,987)
Landfill closure and post-closure costs	(7,940)
Future income tax liabilities	(37,842)
	\$ 249,439

Consideration:

Cash	\$ 148,879
Units	90,000
	238,879
Acquisition and related costs	10,560
	\$ 249,439

Future income tax relief associated with the acquisition and related costs amounted to \$2,004, which has been credited to goodwill.

The results of this acquisition have been included in these consolidated financial statements from April 25, 2002.

The following acquisition transactions were completed concurrently on April 25, 2002 and have been reflected in the determination of the amounts above:

- BFI Holdco amalgamated with Holdings and continued operating as Holdings.
- Holdings paid \$41,812, representing principal and accrued interest, owing on the non-revolving loan of BFI Holdco.

(c) Holdings paid \$17,551, representing principal and accrued interest, owing on the term and bridge loans of BFI Holdco. The remaining long-term debt of \$71,987 represents the value of the renegotiated term loan, amounting to \$71,000, and loans in the name of F.A., amounting to \$987.

(d) Holdings paid \$12,500, representing principal and imputed interest, owing on the subordinated debenture of BFI Holdco.

(e) Holdings paid \$2,000, representing a one time payment made in lieu of all remaining royalty payments which would otherwise be payable under the agreement to use the trade name "BFI" and the related logo with respect to the initial 15 year term (see Note 13).

(f) Holdings wrote-off \$5,886 in deferred financing costs.

(ii) Effective April 30, 2002, the Fund entered into a purchase and sale agreement to acquire the solid waste collection assets from a business in Vancouver for cash consideration of \$217. The purchase price is allocated as follows:

Capital assets	\$	102
Intangible assets - customer collection contracts		115
	\$	217

(iii) Effective June 30, 2002, the Fund entered into a purchase and sale agreement to acquire the solid waste collection assets from a business in Montreal for cash consideration of \$85. The purchase price is allocated as follows:

Capital assets	\$	45
Intangible assets - customer collection contracts		40
	\$	85

(iv) Effective August 29, 2003, the Fund entered into a purchase agreement to acquire the solid waste collection assets from a business in British Columbia for cash consideration of \$2,190. The purchase price is allocated as follows:

Current assets	\$	382
Capital assets		430
Intangible assets - customer collection contracts		435
Intangible assets - customer list		943
	\$	2,190

(v) Effective August, 29, 2003, the Fund entered into a purchase agreement to acquire the solid waste collection assets from a business in Alberta for cash consideration of \$186. The purchase price is allocated as follows:

Capital assets	\$	30
Intangible assets - customer collection contracts		156
	\$	186

5. Other Receivables

Included in other receivables is a direct finance lease receivable due from a city in the province of Quebec for containers. The receivable returns interest at 11% and is due in 60 equal monthly installments of \$21 to August 2007. The receivable is unsecured.

	December 31, 2003	December 31, 2002
Total minimum finance payments receivable	\$ 944	\$ 1,202
Less unearned finance revenue	134	265
Finance receivable	810	937
Less current portion	197	163
	\$ 613	\$ 774
Finance revenue amounted to	\$ 131	\$ 36

Included in other receivables are long-term finance receivables due from a city in the province of Quebec for containers. The receivables return interest at approximately 10% and are due in 60 equal monthly installments of \$61, in aggregate, to December 2007. The receivables are unsecured.

	December 31, 2003	December 31, 2002
Total finance payments receivable	\$ 2,943	\$ –
Less current portion	735	–
	\$ 2,208	\$ –
Finance revenue amounted to	\$ 335	\$ –

Unearned finance revenue included in other receivables and deferred revenue totals \$719 (2002-\$nil) at December 31, 2003.

Minimum direct finance lease and long-term finance payments due in each of the next four years ending December 31 are as follows:

	Direct Finance Lease Receivable	Long-term Finance Receivables
2004	\$ 258	\$ 735
2005	258	736
2006	258	736
2007	170	736
	\$ 944	\$ 2,943

The balance of other receivables represent notes due from cities in the province of Quebec (Note 9).

6. Intangibles

December 31, 2003				
	Cost	Accumulated Amortization	Net Book Value	Additions
Customer collection contracts	\$ 82,861	\$ 20,066	\$ 62,795	\$ 591
Customer lists	943	63	880	943
Transfer station permits	1,592	270	1,322	–
Trade-names	2,300	304	1,996	–
	\$ 87,696	\$ 20,703	\$ 66,993	\$ 1,534

December 31, 2002				
	Cost	Accumulated Amortization	Net Book Value	Additions
Customer collection contracts	\$ 82,270	\$ 8,128	\$ 74,142	\$ 82,270
Customer lists	–	–	–	–
Transfer station permits	1,592	108	1,484	1,592
Trade-names	2,300	121	2,179	2,300
	\$ 86,162	\$ 8,357	\$ 77,805	\$ 86,162

7. Capital Assets

December 31, 2003			
	Cost	Accumulated Amortization	Net Book Value
Land and improvements	\$ 12,222	\$ —	\$ 12,222
Buildings and improvements	28,690	1,855	26,835
Vehicles and equipment	44,009	16,618	27,391
Containers and compactors	23,539	7,142	16,397
Furniture, fixtures and computer equipment	3,981	2,467	1,514
	\$ 112,441	\$ 28,082	\$ 84,359

December 31, 2002			
	Cost	Accumulated Amortization	Net Book Value
Land and improvements	\$ 14,962	\$ —	\$ 14,962
Buildings and improvements	28,303	703	27,600
Vehicles and equipment	34,638	8,222	26,416
Containers and compactors	21,029	2,592	18,437
Furniture, fixtures and computer equipment	3,664	1,414	2,250
	\$ 102,596	\$ 12,931	\$ 89,665

8. Landfill Assets

December 31, 2003			
	Cost	Accumulated Amortization	Net Book Value
Landfill assets	\$ 132,560	\$ 19,476	\$ 113,084

December 31, 2002			
	Cost	Accumulated Amortization	Net Book Value
Landfill assets	\$ 129,780	\$ 7,381	\$ 122,399

The Fund owns and operates landfills in the provinces of Quebec ("Lachenaie"), Alberta and Manitoba, which have estimated remaining operating lives of approximately 5.3 to 6.8, 4.0 and 41.8 years, respectively, based on expected disposal volumes and a six day per week operation at each site. Effective March 26, 2003, the Fund received an emergency decree from the Quebec Government approving the Fund's request to vertically expand the Lachenaie landfill. Receipt of this decree provided approximately one million tonnes or approximately one year of capacity. Effective February 10, 2004, the Fund received approval to expand the capacity of the Lachenaie landfill by an additional 6.5 million cubic metres which, depending on the annual volume of non-hazardous solid waste entering the site, is the equivalent of between 5.0 and 6.5 years of operation (see note 19). Future approvals to continue operating the Lachenaie landfill are expected to increase its capacity, and accordingly its operating life, an additional 33 million cubic metres and are required to complete the filling of the then remaining unfilled airspace capacity. Management expects to receive the necessary permits prior to the expiry of the then current permit and is amortizing the Lachenaie landfill costs over the combined permitted and deemed permitted airspace. The net book value of the Lachenaie landfill at December 31, 2003 is \$81,441 (2002 - \$83,966).

9. Long-Term Debt

	December 31, 2003	December 31, 2002
Term loan	\$ 71,000	\$ 71,000
Revolving loan	9,850	5,250
Other	734	987
	81,584	77,237
Less current portion of long-term debt	271	252
	\$ 81,313	\$ 76,985

The term loan is available to a maximum of \$71,000 and at Holdings' option, bears interest at bank prime or the 30 day rate on bankers' acceptances, plus 1%, plus an additional 2% on either interest rate option, payable monthly in arrears. Holdings, at its option, may prepay all or any portion of the term loan in amounts of not less than \$2,000. The term loan is repayable in full the earlier of April 25, 2005 and an event of default and is secured by a first priority security interest on the assets of the Fund and its subsidiaries. Prepaid interest, representing the discount on bankers' acceptances, amounted to \$336 (2002 - \$338) and is included in prepaid expenses.

Holdings also has available a revolving loan to a maximum of \$28,600, of which \$8,600 relates specifically to a letter of credit required to operate a landfill. To the extent the revolving loan is utilized, the loan bears interest, at the option of Holdings, at bank prime or the 30 day rate on bankers' acceptances, plus 1%, plus an additional 2% on either interest rate option, payable monthly in arrears. Unused portions of the revolving loan, totalling \$6,810 at December 31, 2003 (2002 - \$11,460), are subject to a 0.5% standby fee payable quarterly in arrears. The aggregate unpaid principal and interest is due and payable no later than the earlier of April 25, 2005 and an event of default. Revolving loan advances are not to exceed \$10,000 for permitted acquisitions and \$17,000, \$18,000 and \$15,000 for capital expenditures in fiscal years ending 2002, 2003 and thereafter, respectively. The revolving loan is secured

by a first priority security interest on the assets of the Fund and its subsidiaries. Prepaid interest, representing the discount on bankers' acceptances, amounted to \$46 (2002 - \$24) and is included in prepaid expenses.

Effective July 31, 2003, Holdings received a consent and waiver from its lenders to repay its revolving loan with proceeds received from the sale of surplus lands. The lenders have consented to re-advance the monies to Holdings, subject to certain restrictions, for the purchase and development of another facility prior to June 30, 2004. Under the consent and waiver, monies re-advanced to Holdings are specifically excluded from the calculation of the capital expenditure covenant established by the amended and restated credit and guarantee agreement.

Other long-term debt represents two bank loans of \$152 (2002 - \$249) and \$582 (2002 - \$738), due May 15, 2005, bearing interest at 7.9%, and due March 12, 2007, bearing interest at 7.0%, respectively. Both bank loans are secured by cities in the province of Quebec. The purpose of these loans was for F.A. to acquire containers to be furnished to the respective cities. These loans are repaid directly by the cities to the lender in monthly amounts of principal and interest. Included in current and long-term other receivables are notes due from these cities having the same terms and conditions as the underlying loan.

Interest on long-term debt amounted to \$5,137 (2002 - \$3,118).

Principal repayments required in each of the next four years ending December 31 are as follows:

2004	\$ 271
2005	81,075
2006	190
2007	48
	\$ 81,584

10. Landfill Closure and Post-Closure Costs

The Fund currently operates 3 solid waste landfills and is responsible for closure and post-closure monitoring and maintenance costs in respect of each site. Estimated aggregate closure and post-closure costs will be fully accrued for these landfills at the time that such facilities cease to accept waste and are closed. Considering existing accruals of \$8,870 (2002 - \$8,013) at December 31, 2003, approximately \$15,964 (2002 - \$19,025) of additional accruals are to be provided over the remaining lives of these landfill facilities, which includes environmental costs and methane gas control identified under existing facility permits. Environmental reviews by external consultants are performed at various times each year. The expected future payments for closure and post-closure costs as of December 31, 2003 are as follows:

2004	\$	3,099
2005		450
2006		800
2007		1,050
2008		909
Thereafter		18,526
	\$	24,834

No post-closure costs are accrued for the Lachenaie landfill, since the site possesses a landfill gas power generating plant that is expected to generate sufficient revenue after waste placement has ended to offset post-closing costs.

Effective February 10, 2004, the Fund received approval to expand the capacity of the Lachenaie landfill by an additional 6.5 million cubic metres which, depending on the annual volume of non-hazardous solid waste entering the site, is the equivalent of between 5.0 and 6.5 years (see note 19). Expected closure and post-closure costs cannot be reasonably determined until all elements of the Lachenaie landfill expansion are finalized with the Quebec Government. Accordingly, no amounts are included in the expected future payments for closure and post-closure costs provided above.

Effective March 2003, the Canadian Institute of Chartered Accountants issued a new Canadian accounting standard for asset retirement obligations, which requires the

recognition of an obligation associated with the retirement of a tangible long-lived asset that an entity is legally obligated to settle. The new standard is effective for fiscal years beginning on or after January 1, 2004 and requires the Fund to retroactively restate all comparative consolidated financial statements. Accordingly, the December 31, 2003 consolidated financial statements will be restated for all future comparative purposes. Adopting the new accounting standard will have no impact on cash generated from operating activities.

11. Income Taxes

The Fund is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the Trustee will distribute all taxable income directly earned by the Fund to the Unitholders and deduct such distributions for income tax purposes. Canadian-based corporate subsidiaries are subject to tax on their taxable income at a rate of approximately 36% (2002 - 38%).

The following table reconciles the difference between the income taxes that would result solely by applying statutory rates to the Fund's pre-tax income and the recovery of income taxes in the consolidated financial statements.

	December 31, 2003	From April 25, 2002 to December 31, 2002
Income before income taxes	\$ 7,784	\$ 1,733
Income tax expense at the combined basic rate	2,802	659
Tax on income attributable to Unitholders	(10,369)	(7,506)
Large corporations tax	450	513
Tax on non-deductible amortization of intangibles	1,111	701
Tax on other non-deductible expenses	74	57
Permanent difference on sale of capital assets	131	-
Effect of tax rate change between current combined rate and expected rate reversals	(245)	938
Other	234	486
Income tax recovery	\$ (5,812)	\$ (4,152)

Significant components of the Fund's future income taxes are as follows:

	December 31, 2003	December 31, 2002
Future income tax assets		
Unutilized tax loss carry forwards	\$ 9,677	\$ 7,857
Deferred financing costs and offering expenses	4,616	5,894
Carrying value of capital assets in excess of tax value	725	718
Accounting provisions not currently deductible for tax	3,005	1,291
	18,023	15,760
Future income tax liabilities		
Carrying value of intangible assets in excess of tax value	22,296	24,898
Carrying value of landfill assets in excess of tax value	13,723	16,160
Carrying value of deferred costs in excess of tax value	1,040	-
	37,059	41,058
Net future income tax liabilities	\$ 19,036	\$ 25,298

12. Unitholders' Equity

An unlimited number of trust units may be issued. Each unit is transferable, voting and represents an equal and undivided beneficial interest in any distributions from the Fund whether of income, net realized capital gains or other amounts and in any net assets of the Fund in the event of termination or winding-up of the Fund.

On April 25, 2002, the Fund issued 17,500,000 units at \$10.00 per unit for cash and 9,000,000 units in exchange for \$90,000 of notes in Holdings. Offering expenses amounted to \$15,561.

On May 21, 2002, the Fund issued 1,821,800 units at \$10.00 per unit which were subsequently cancelled at a cost of \$17,170. The cancellation of units resulted in a net gain of \$337 which has been credited to contributed surplus. Offering expenses amounted to \$1,048.

After deducting total offering expenses of \$16,609, less tax relief thereon of \$5,558, total proceeds from the issue of trust units amounted to \$272,167.

Details of contributed equity and accumulated net income and distributions are as follows:

	December 31, 2003		December 31, 2002	
	Units	\$	Units	\$
<i>Contributed equity</i>				
Trust units, beginning of year	26,500,000	\$ 254,997	-	\$ -
Issue of trust units	-	-	28,321,800	272,167
Cancellation of trust units	-	-	(1,821,800)	(17,507)
Contributed surplus	-	-	-	337
Trust units, end of year	26,500,000	254,997	26,500,000	254,997
<i>Accumulated net income</i>				
Net income, beginning of year/period		5,885		-
Net income, current year/period		13,596		5,885
Net income, end of year/period		19,481		5,885
<i>Accumulated distributions</i>				
Distributions, beginning of year/period		21,642		-
Distributions, current year/period		32,628		21,642
Distributions, end of year/period		54,270		21,642
Unitholders' equity		\$ 220,208		\$ 239,240

13. Commitments and Contingencies

The Fund leases buildings and equipment under operating leases. Future lease payments for periods ending December 31 are as follows:

2004	\$ 2,159
2005	2,082
2006	1,862
2007	1,851
2008	506
Thereafter	2,061
	\$ 10,521

In 2002, the Fund was committed to purchase vehicles and containers totalling approximately \$1,000 and \$1,300, respectively, to meet its service obligations under new collection contracts. There were no such commitments at December 31, 2003.

The Fund is the successor to a license agreement to use the trade name "BFI" and the related logo in relation to its solid waste management business, subject to certain restrictions. The agreement was amended on February 22, 2002, whereby a one-time payment of \$2,000 was made on April 25, 2002 in full satisfaction of all royalty obligations under the license agreement for the balance of the initial 15-year term. The Fund has two optional extensions pursuant to the agreement of 10 years each subsequent to the original 15-year term, for \$600 and \$1,500 respectively per annum.

Effective February 10, 2004, the Fund received approval to expand the capacity of the Lachenaie landfill by an additional 6.5 million cubic metres which, depending on the annual volume of non-hazardous solid waste entering the site, is the equivalent of between 5.0 and 6.5 years of operation (see note 19). As a result, the Fund is required to pay a royalty of \$1.50 per tonne for each tonne of waste accepted in the newly permitted area to a maximum of \$1,500 per annum. This royalty agreement has a life of 4 years and a maximum cumulative payment of \$6,000 over the life of the agreement.

The Fund enters into various commitments in the normal course of business. At December 31, 2003, the Fund has issued letters of credit of \$11,940 (2002 - \$11,890) and performance bonds of \$21,171 (2002 - \$20,048).

14. Employee Future Benefits

The net pension expense for the defined contribution and defined benefit pension plans for the period ended December 31, 2003 amounted to \$360 (2002 - \$221).

DEFINED CONTRIBUTION PENSION PLAN

The Fund's defined contribution pension plan is non-contributory and requires all eligible employees to join the plan following one year of service.

DEFINED BENEFIT PENSION PLAN

The Fund has 14 active members in the defined benefit pension plan. An actuarial valuation is performed every three years. The most recent actuarial valuation was performed on December 31, 2000. Information on the Fund's defined benefit pension plan is as follows:

	December 31, 2003	December 31, 2002
Plan Assets		
Fair value at beginning of period	\$ 325	\$ 291
Expected return on plan assets	23	16
Employer contributions	51	60
Benefits paid	(72)	(2)
Actuarial gain (loss) during the period	9	(40)
Fair value, end of period	\$ 336	\$ 325
Accrued benefit obligation		
Beginning of period	\$ 442	\$ 397
Current service cost	44	28
Interest cost	29	19
Benefits paid	(72)	(2)
Accrued benefit obligation, end of period	\$ 443	\$ 442
Benefit plan expense		
Current service cost	\$ 44	\$ 28
Expected return on plan assets	(23)	(16)
Interest cost	29	19
Amortization of transition asset	(3)	(2)
Amortization of net actuarial losses	(9)	(3)
Net benefit plan expense	\$ 38	\$ 26
Funded status - plan deficit	\$ 107	\$ 117
Unamortized transitional asset	22	25
Unamortized actuarial losses	(99)	(100)
Accrued benefit liability, end of period	\$ 30	\$ 42

The significant actuarial assumptions adopted in measuring the Fund's accrued benefit obligation are as follows:

	December 31, 2003	December 31, 2002
Discount rate	6.5%	6.5%
Expected long-term rate of return on plan assets	7.5%	7.5%
Rate of compensation increase	4.5%	4.5%

15. Financial Instruments

ESTIMATED FAIR VALUE

The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued charges, distribution payable, income taxes payable and deferred revenues approximates fair value due to the relatively short-term maturities of these instruments.

At December 31, 2003, the estimated fair value of the direct finance lease receivable applying an interest rate consistent with the credit quality of the borrower is \$847 (2002 - \$1,023), compared to the carrying amount of \$810 (2002 - \$937).

At December 31, 2003, the estimated fair value of long-term finance receivables applying an interest rate consistent with the credit quality of the borrower is \$2,614 (2002 - \$nil), compared to the carrying amount of \$2,943 (2002 - \$nil).

At December 31, 2003, the estimated fair value of notes due from cities in the province of Quebec applying an interest rate consistent with the credit quality of the borrower is \$154 (2002 - \$255) and \$592 (2002 - \$752), respectively, compared to the carrying amount of \$152 (2002 - \$249) and \$582 (2002 - \$738), respectively.

At December 31, 2003 and 2002, the estimated fair value of long-term debt approximates its carrying amount.

CREDIT RISK

The Fund provides credit to its customers in the normal course of operations. The Fund carries out, on a continuing basis, credit checks on its customers and maintains provisions for credit losses. The Fund minimizes its credit risk by dealing with a large number of customers in various industries.

INTEREST RATE RISK

The Fund has a term and revolving loan with interest rates subject to fluctuations with bank prime or the 30 day rate on bankers' acceptances.

16. Segmented Reporting

The Fund carries out business through two separate business segments: landfills and energy, and solid waste collection. The Fund owns and operates three landfills, which service Montreal, Calgary and Winnipeg and their respective surrounding communities and operates one landfill for the City of Lethbridge. The Fund's landfill gas to energy facility, located at its Lachenaie landfill, in Quebec, is also included in this business segment. The solid waste collection segment consists of the collection and disposal of non-hazardous solid waste and recyclable products, transfer collection operations, material recovery facilities and compactor rentals.

The accounting policies used in these business segments are the same as those described in the summary of significant accounting policies. Corporate selling, general and administration costs are allocated to the segments based on various factors, including revenues. The Fund evaluates segment performance based on gross revenues, less operating and selling, general and administration expenses.

Estimates used in the calculation of fair value for identified reporting units have been adjusted. The adjustments resulted in the reallocation of goodwill between business segments totalling \$9,581. The December 31, 2002 comparative information has been adjusted to reflect this change.

The Fund does not have any customers for which sales exceed 10% of total revenues. Substantially all of the Fund's revenues are earned in Canada.

	December 31, 2003	From April 25, 2002 to December 31, 2002
Gross Revenues		
Landfills and energy	\$ 46,318	\$ 29,589
Solid waste collection	136,903	89,424
	183,221	119,013
Intercompany Revenues		
Landfills and energy	(13,829)	(9,125)
Solid waste collection	(1,766)	(1,382)
	\$ (15,595)	\$ (10,507)
Revenues		
Landfills and energy	32,489	20,464
Solid waste collection	135,137	88,042
	\$ 167,626	\$ 108,506
Income before amortization, interest on long-term debt, net gain on sale of capital and landfill assets and income taxes		
Landfills and energy	24,679	16,778
Solid waste collection	29,660	18,290
	\$ 54,339	\$ 35,068

December 31, 2003			
	Landfills and Energy	Solid Waste Collection	Total
Goodwill	\$ 19,859	\$ 29,312	\$ 49,171
Total Assets	\$ 165,333	\$ 191,629	\$ 356,962

December 31, 2002 (restated)			
	Landfills and Energy	Solid Waste Collection	Total
Goodwill	\$ 19,859	\$ 29,312	\$ 49,171
Total Assets	\$ 177,634	\$ 201,807	\$ 379,441

17. Guarantees

Effective January 1, 2003, the Fund adopted the new Canadian accounting guideline AcG-14, which requires certain disclosures of guarantees.

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees subject to the disclosure requirements of AcG-14 are as follows:

(a) The Fund has provided indemnities under lease agreements for the use of various operating facilities. Under the terms of these agreements the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, damage and existence of hazardous substances arising during, on or after the term of the agreement. Changes in environmental laws or in the interpretation thereof may require the Fund to compensate the counterparties. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all trustees and directors and or officers of the Fund and its subsidiaries for various items including, but not limited to, all costs to settle suits or actions due to association with the Fund and its subsidiaries, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Fund. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) The Fund has received indemnities for the receipt of hazardous, toxic or radioactive wastes or substances and the Fund has issued indemnities for the disposal thereof at third party landfills. Hazardous, toxic or radioactive wastes or substances are defined by applicable federal, provincial or local laws and regulations. Changes in environmental laws or in the interpretation thereof may require the Fund to compensate or be compensated by the counterparties. The term of the indemnity is not explicitly defined and the maximum amount of any potential future reimbursement or payment cannot be reasonably estimated.

(d) In the normal course of business, the Fund has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, underwriting and agency agreements, information technology agreements and service agreements. These indemnification agreements may require the Fund to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Fund from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the

unlimited coverage offered to counterparties. Historically, the Fund and its predecessor have not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the Consolidated Balance Sheets with respect to these agreements.

The Fund has been indemnified for various environmental and real property and other matters, including taxes and various other items that existed on or prior to June 30, 2000. The term and potential reimbursement varies with the matter indemnified.

18. Long-Term Incentive Plan

Effective January 1, 2003, Holdings entered into a trust (the "Trust") agreement to establish a long-term incentive plan on behalf of certain employees, officers and directors of Holdings and its subsidiaries. The purpose of the Trust is to receive monies from Holdings and its subsidiaries on behalf of certain employees, officers and directors to purchase units of the Fund in the open market and to hold those units acquired for the benefit of its participants. Units will remain registered in the name of Holdings, the trustee, or its nominee(s), until the units are redeemed, sold or distributed to the participant for whom they are held. Distributions received by the Trust are to be distributed to the participants in proportion to their pro-rata entitlement. The Fund's maximum exposure to loss is limited to its obligation to fund the administration of the Trust and its indemnity to Holdings, officers, directors, employees, agents or unitholders for various items including, but not limited to, all costs to settle suits or actions due to association with the Trust, subject to certain restrictions. The risk of fluctuations in the price of the Fund's units is borne by its participants. Included in selling, general and administration expenses are \$630 (2002 - \$nil) of accrued amounts payable to the Trust at December 31, 2003.

19. Subsequent Event

On February 10, 2004, the Fund received a decree from the Quebec Government issued on February 4, 2004 to expand the Lachenaie landfill site. The decree approves, subject to several conditions, the expansion design with a total projected capacity of 40.0 million metric tonnes, and limits the approved operating capacity to 6.5 million

cubic metres which, depending on the annual volume of non-hazardous solid waste entering the site, should be the equivalent of between 5.0 and 6.5 years of operation. The decree also increases the maximum annual landfill volume from the current 0.97 million metric tonnes to 1.3 million metric tonnes. Future approvals to continue operating the Lachenaie landfill are expected to increase its total operating capacity, and accordingly its operating life, an additional 33 million cubic metres or approximately 35 years based on current disposal volumes and a six day per week operation. Future approvals to expand the Lachenaie landfill are required to complete the filling of the then remaining unfilled airspace capacity. While the granting of any permit is entirely within the discretion of the Quebec Government, management expects to receive the necessary permits to continue operating the landfill prior to the expiry of the then current permit and accordingly no provision for impairment of goodwill, deferred costs or landfill assets in respect of the Lachenaie landfill site has been recorded.

The decree for the expansion is subject to various conditions which impose obligations on the Fund. These conditions are similar to those contained in the current operating permit with the exception of an additional public liaison committee and the manner in which financial guarantees are satisfied for post-closure management. Unlike previous operating permits, the Fund is not required to issue a letter of credit in favour of the Quebec Government for the expansion, however, it is required to deposit into a social utility trust an amount to be established by the Quebec Government for each cubic metre of waste accepted, payable quarterly.

The receipt of this decree obligates the Fund to pay a royalty of \$1.50 per tonne for each tonne of waste accepted in the newly permitted area to a maximum of \$1,500 per annum. This royalty agreement has a life of 4 years and a maximum cumulative payment of \$6,000 over the life of the agreement.

Term Definitions and Notes

(A) All references to "EBITDA" in this report are to "income before the following" on the consolidated statements of operations, or more explicitly, to "income before amortization, interest on long-term debt, net gain on sale of capital and landfill assets, other expenses and income taxes". EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund's operating profitability, and by definition, excludes certain expenses (specifically amortization, interest on long-term debt, net gain on sale of capital and landfill assets, other expenses and income taxes). These expenses are viewed by management as either non-cash (in the case of amortization and future income taxes) or non-operating (in the case of interest on long-term debt, net gain on sale of capital and landfill assets, other expenses and current income taxes). EBITDA is a useful financial metric for investors as it represents a starting point in the determination of free cash flow available for distribution^(B). The underlying reasons for exclusion of each item are as follows:

Amortization – as a non-cash item amortization has no impact on the determination of free cash flow available for distribution^(B).

Interest on long-term debt – interest on long-term debt is a function of an entity's debt/equity mix and interest rates; as such, it reflects the treasury/financing activities of the entity and represents a different class of expense than the components of EBITDA.

Net gain on sale of capital and landfill assets – the net gain on sale of capital and landfill assets has no impact on the determination of free cash flow available for distribution^(B), because the proceeds were used to repay the Fund's revolving loan facility.

Other expenses – other expenses include corporate development and organizational costs, management severance costs, management fees and a special one-time management bonus issued in connection with the closing of the initial public offering. Other expenses were exclusive to 3743276 Canada Inc. and are considered non-operating.

Income taxes – income taxes are a function of tax laws and rates and are affected by matters which are separate from the daily operations of the Fund.

EBITDA should not be construed as a measure of income or of cash flows. The reconciling items between EBITDA and net income are detailed in the consolidated

statement of operations beginning with "income before the following" and ending with "net income".

(B) The Fund has adopted a measurement called free cash flow available for distribution to supplement net income as a measure of operating performance. Free cash flow available for distribution is a term which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other issuers. The objective of presenting this non-GAAP measure is to calculate the amount which is available for distribution to unitholders. Free cash flow available for distribution is calculated as EBITDA^(A) less interest on long-term debt, current income taxes and maintenance capital expenditures. Free cash flow available for distribution is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity. All references in this report to "free cash flow available for distribution" have the meaning set out in this note.

(1) Effective March 2003, the Canadian Institute of Chartered Accountants issued a new Canadian accounting standard for asset retirement obligations, which requires the recognition of an obligation associated with the retirement of a tangible long-lived asset that an entity is legally obligated to settle. The new standard is effective for fiscal years beginning on or after January 1, 2004 and requires the Fund to retroactively restate all comparative consolidated financial statements. Accordingly, the December 31, 2003 consolidated financial statements will be restated for all future comparative purposes. Adopting the new accounting standard is expected to have a material impact on landfill assets and closure and post-closure costs, however, it will have no impact on free cash flow available for distribution^(B).

(2) Operating results for the period from January 1, 2002 to April 24, 2002 are the results of 3743276 Canada Inc., one of the predecessors of BFI Canada Holdings Inc. The Fund indirectly acquired all of the issued and outstanding shares of 3743276 Canada Inc. on April 25, 2002 in connection with the closing of its initial public offering of trust units. For financial reporting purposes the Fund has only consolidated the results of BFI Canada Holdings Inc. with its results since April 25, 2002. Reference is made to the prospectus of the Fund dated April 16, 2002 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

(3) Free cash flow available for distribution^(B) in aggregate and per trust unit and aggregate distributions declared and per trust unit for the comparative year ended is for the period from April 25, 2002 to December 31, 2002.

BFI Canada Income Fund Trustees

Keith Carrigan¹ has been the Chief Executive Officer of BFI Canada Inc. since June 2000. He has enjoyed a long and successful career spanning over 25 years in the solid waste industry. Most notably, he was Vice President of Waste Management Inc. in the United States and President of WMI Waste Management of Canada Inc.

T. Iain Ronald^{2,3}, Non-Executive Chairman, retired in February 1995 from the position of Vice Chairman of Canadian Imperial Bank of Commerce. He currently serves on the Board of Directors of several Canadian public and private companies, including Loblaw Companies Limited, Strongco Inc., Holt, Renfrew & Co., Ltd., Leon's Furniture Ltd., TransAlta Power Ltd. and Allied Properties REIT.

Douglas W. Knight^{1,3} is President and Chief Executive Officer of Knight Paton Media Corporation. Mr. Knight previously served as publisher and CEO of The Financial Post from 1992 to 1997, publisher and CEO of The Toronto Sun from 1997 to 2000 and as managing director of Counsel Corporation from 2000 to 2001.

Daniel R. Milliard^{2,3} is Chief Executive Officer of Natural Convergence Inc. Mr. Milliard was formerly Chief Executive Officer of GT Group Telecom Inc., and prior to that he was President and COO of Hyperion Communications (now Tel-Cove Inc.). Mr. Milliard currently serves on the Board of Directors of several organizations including Charles Cole Hospital; Smeal College of Business Advisory Board, Penn State University; and the School of Information Science and Technology Advisory Board, Penn State University.

Joseph H. Wright² has been the Managing Partner of Barnagain Capital since February 2001. He was formerly Managing Partner of Crosbie & Company Inc., and prior to that he was President and Chief Executive Officer of Swiss Bank Corporation (Canada). Mr. Wright is currently the Chairman and Trustee of O&Y REIT and serves on the Boards of Directors of several Canadian companies, including Loblaw Companies Ltd., President's Choice Bank, Call-Net Enterprises Inc., Hip Interactive Inc., Sarnia Hydro/Bluewater Power and Chartwell Seniors Housing REIT.

James Temple¹ has extensive experience in the solid waste industry and was formerly President of WMI Waste Management of Canada Inc. During the past few years he has served on the board of several public companies.

¹Environmental, Health and Safety Committee

²Audit Committee

³Compensation and Corporate Governance Committee



From left to right: Keith Carrigan, T. Iain Ronald, Daniel R. Milliard, James Temple, Douglas W. Knight and Joseph H. Wright

Corporate Governance

As part of our overall commitment to continuous improvement, BFI Canada conducts an ongoing review of our corporate governance practices, to ensure that we continue to meet or exceed all appropriate guidelines and regulations. To this end, we rely heavily on our experienced and respected Board of Trustees to help the Fund be a leader in governance among Income Trusts. We strongly believe that both good governance and fair disclosure substantially enhance unitholder value.

BFI Canada therefore meets or exceeds the TSX guidelines for effective corporate governance (available for reference online through www.tsx.com/en/profile/tsxlistedcompany.html). There has been considerable change over the past year in corporate governance practices, including the introduction of a proposed governance disclosure instrument from the Canadian Securities Administrators. These enhanced corporate governance regimens are expected to come into effect by the end of 2004. Our Board of Trustees endeavours to stay ahead of the trend with regard to governance, and BFI Canada Income Fund is fundamentally compliant with all current guidelines. In addition, the Fund's Board of Trustees is closely monitoring the new changes to ensure that we incorporate them into our governance practices and procedures as appropriate.

In accordance with these policies, BFI Canada has appointed a majority of unrelated directors. Five of our six trustees, Douglas W. Knight, Daniel R. Milliard, T. Iain Ronald (our Non-Executive Chairman), James Temple and Joseph H. Wright, are unrelated within the meaning of the TSX Guidelines. Keith Carrigan, President & CEO of BFI Canada, is the only related trustee. Both BFI Canada's Audit Committee and Compensation and Corporate Governance Committee are made up entirely of outside trustees.

For a complete description of the Fund's adherence to the TSX corporate governance guidelines, please consult the proxy information circular for our April 20, 2004 meeting of unitholders.



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TRANSFER AGENT AND REGISTRAR

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Toronto, Ontario M5J 2Y1

ANNUAL MEETING OF UNITHOLDERS

Tuesday, April 20, 2004 at 10:00 am (Eastern Time)
The TSX Conference Centre
The Exchange Tower, 130 King Street West
Toronto, Ontario

Our Roadmap for Success – Continuous Improvement



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